The Bid Price Adjustment

What you've always wanted to know – but were afraid to ask

Major Richard T. Higdon

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1. I'm Region 1's expert on the BPA
2. I've worked BPA issues for almost three years
3. After that [illegible] about all there is to [illegible] the BPA
4. After the presentation, I want you to ask me the hardest questions you can think of to try and stump me

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5. To better understand the BPA – let's start at the start

6. DoD realized that the MTFs in Region 1 were only going to be able to accommodate about 40% of the beneficiaries in Region 1

7. Managed care support contracts fill the 60% gap

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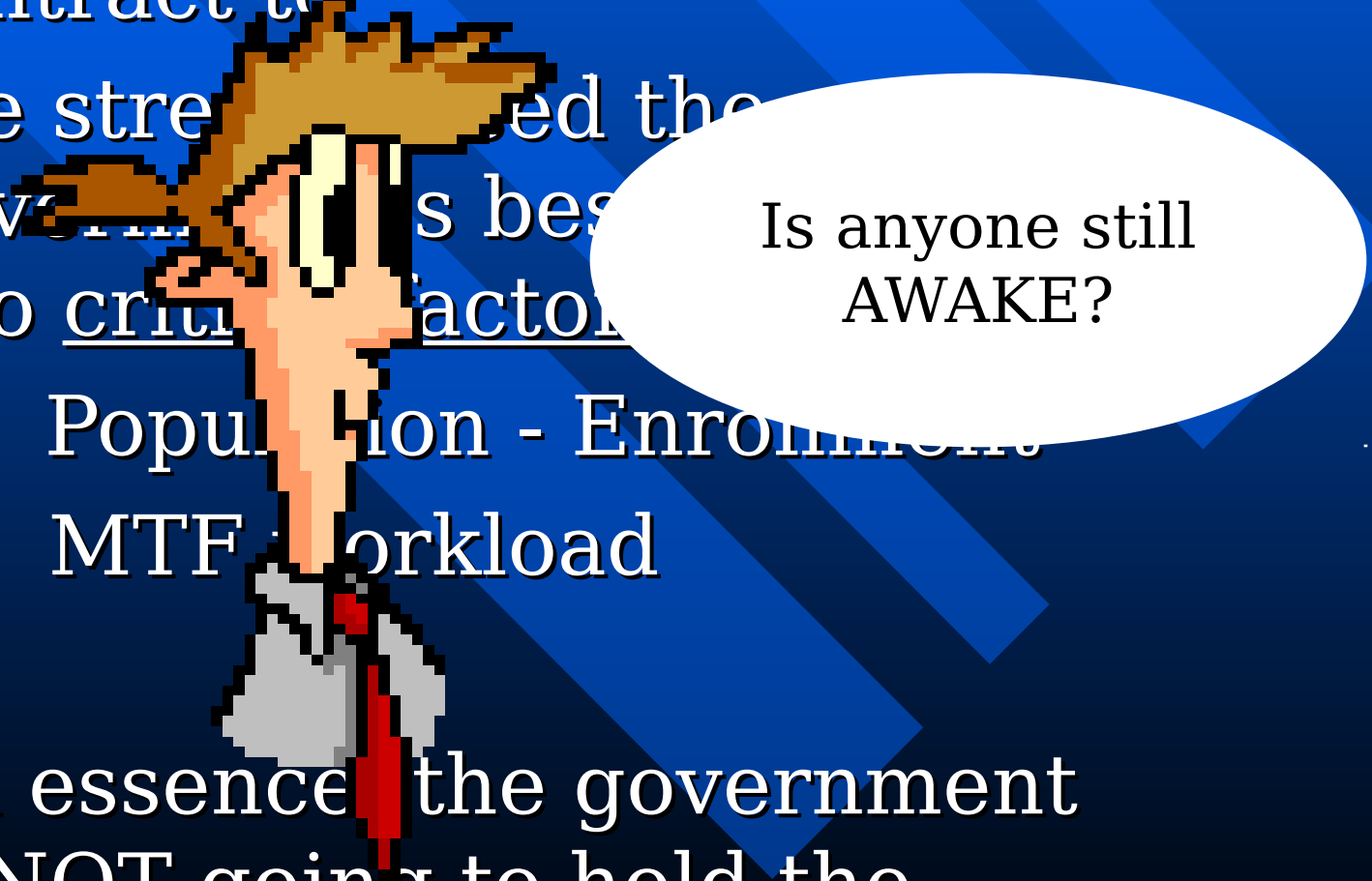
8. At the time DoD let this contract to
   the stre ed th
   gov s bes
   two crit factor
   a. Popul ion - Enrollment
   b. MTF orkload



9. In essence the government is NOT going to hold the contractor “at risk” for the

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12. Since DoD is NOT going to hold the contractor “at risk” for population and MTF workload changes, there must be a methodology to adjust the contractor’s original bid to reflect current reality

13. The BPA process is that methodology

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14. DoD hired Kennel & Associates to calculate the BPA. This keeps the calculation at “arms length”

15 At the start of the contract, each MTF submitted their best estimates of workload and enrollment – these turned out to be far too high. Result - extremely high BPAs

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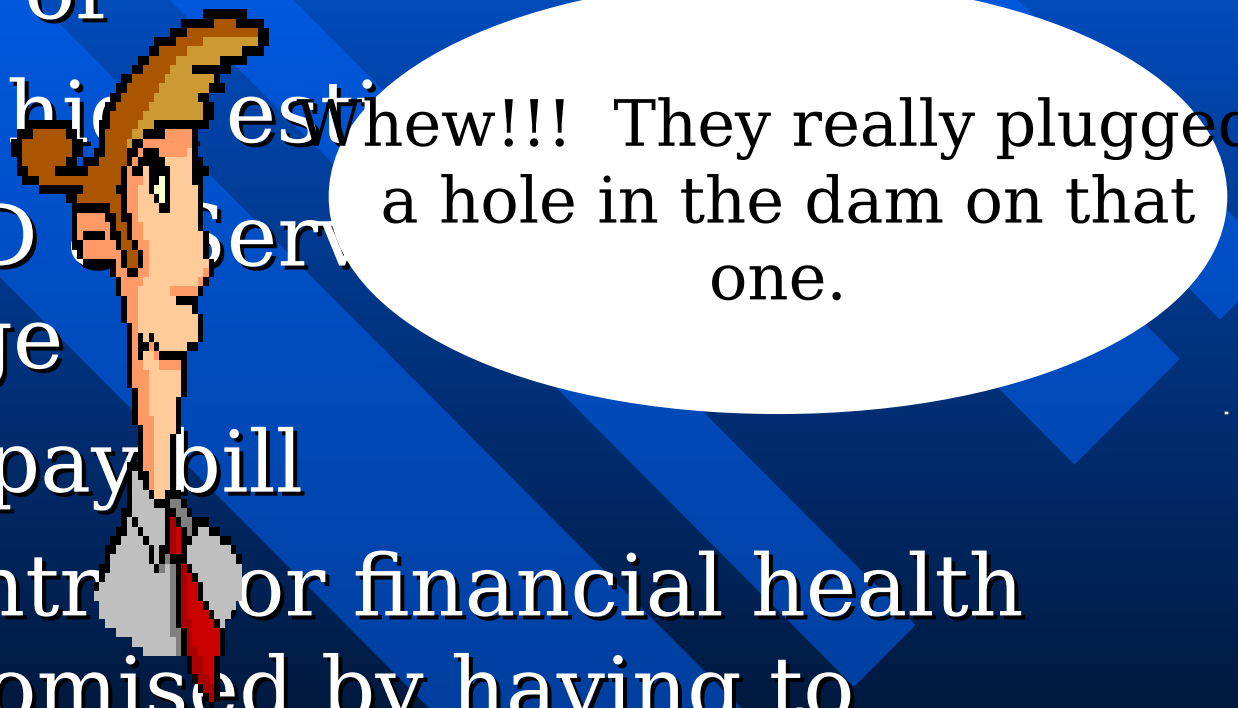
16. Two extremely negative effects of those bid estimates
    a. DoD Services by large must pay bill
    b. Contractor financial health compromised by having to "float" DoD until BPA



17. Workload and Enrollment

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18. BPAs are calculated from the ORIGINAL estimates – not the adjusted estimates

19. All Region 1 MTFs have submitted estimates for inpatient and outpatient psy and non-psy workload

20. Those estimates will be the numbers used to calculate

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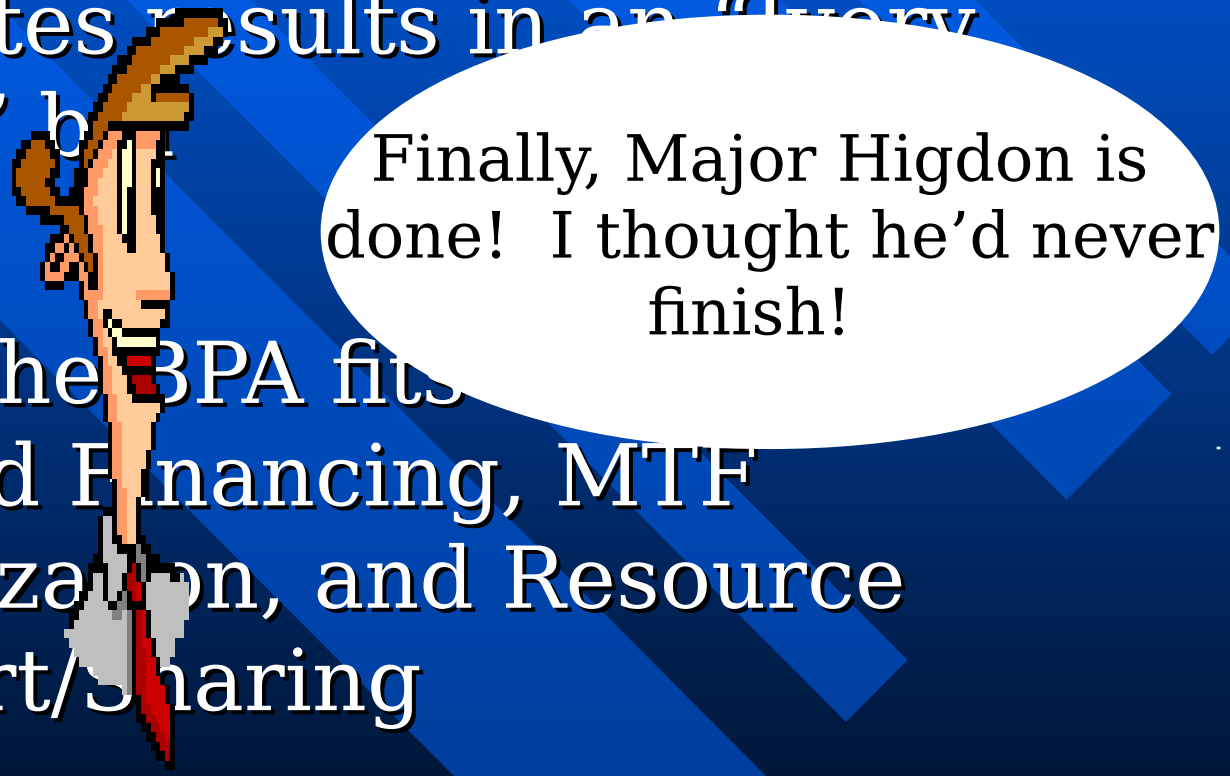
21. Your MTF missing workload estimates results in an "Ivory Tower" b[illegible]



22. How the BPA fits Revised Financing, MTF Optimization, and Resource Support/Sharing

23. Numbers and methodologies expected from the MTFs